

Message Text

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INFO OCT-01 EA-12 IO-14 ISO-00 AID-05 CIAE-00 COME-00
EB-08 FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00
XMB-04 OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05
SS-15 STR-05 CEA-01 AGRE-00 /119 W
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R 282041Z SEP 77
FM AMEMBASSY PARIS
TO SECSTATE WASHDC 9450
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY ROME
AMEMBASSY TOKYO
USMISSION GENEVA
AMCONSUL BORDEAUX
AMCONSUL LYON
AMCONSUL MARSEILLE
AMCONSUL NICE
AMCONSUL STRASBOURG

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USMTN; PARIS PASS OECD
USEEC

PASS TREASURY, FEDERAL RESERVE, COMMERCE, LABOR

E. O. 11652: N/A
TAGS: EALR, EFIN, EGEN, FR
SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS26977, SEPTEMBER 14, 1977

1. SUMMARY:

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ALTHOUGH THE ECONOMY IS BY NO MEANS GALLOPING ALONG,
SEVERAL SIGNS INDICATE THAT IT MAY BE GAINING A SLIGHT
BIT OF STRENGTH. A LARGE INCREASE IN RETAIL SALES
PLUS THE LARGE AUGUST TRADE DEFICIT (PARIS 27817) POINT
TO A REVIVAL IN CONSUMPTION. THE PATRONAT SAYS THAT
IT HAS MADE SUBSTANTIAL HEADWAY IN ITS PROGRAM TO
INCREASE EMPLOYMENT OF THE YOUNG. THE BOURSE INDEX

HAS PICKED UP SEVERAL POINTS IN THE PAST TWO WEEKS,
MAINLY AS A CONSEQUENCE OF THE SPLIT IN THE LEFT.
END SUMMARY

2. BOF REPORTS RECOVERY IN RETAIL SALES

THE BOF REPORTS THAT THE STRENGTHENING OF RETAIL SALES,
FIRST OBSERVED IN JUNE AFTER A PERIOD OF PROGRESSIVE
WEAKENING FROM THE BEGINNING OF THE YEAR, CONTINUED IN
JULY AND AUGUST. THE VOLUME OF SEASONALLY ADJUSTED
RETAIL SALES DURING THIS PERIOD WAS 2.5 PERCENT HIGHER
THAN IN MAY-JUNE AND 1.5 PERCENT HIGHER THAN JULY-
AUGUST A YEAR AGO, A PERIOD DURING WHICH RETAIL SALES
WERE ALREADY FAIRLY STRONG. THIS RECOVERY IN ACTIVITY
HAS BEEN STRONGEST IN THOSE SECTORS WHERE ACTIVITY HAD
BEEN MEDIOCRE DURING THE FIRST HALF OF THE YEAR:
TEXTILES, SHOES AND HOUSEHOLD APPLIANCES. AS A RESULT
OF THIS RECOVERY PLUS THE EARLIER LOW LEVEL OF ORDERS
BY MERCHANTS, INVENTORIES HAVE DECLINED, PARTICULARLY
IN HOUSEHOLD APPLIANCES, RADIO-TELEVISION AND
FURNISHINGS. MERCHANTS ARE OPTIMISTIC THAT THE SPON-
TANEOUS STRENGTHENING IN HOUSEHOLD DEMAND WILL BE
REINFORCED BY THE RECENT GOF STIMULUS MEASURES.
THEREFORE, THE MAJORITY INTEND THAT THEIR ORDERS
WILL BE AT A LEVEL WHICH, ALTHOUGH NORMAL FOR THE
SEASON, IS HIGHER THAN THEY HAD ENVISIONED BEFORE
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THE SUMMER.

3. PATRONAT REPORTS THAT YOUTH EMPLOYMENT PROJECT IS MAKING HEADWAY

IT APPEARS THAT THE GOF'S EFFORTS TO INCREASE THE
EMPLOYMENT OF YOUTH ARE FINALLY BEGINNING TO GAIN
SOME STEAM. THE PATRONAT ANNOUNCED THAT, AS OF
SEPTEMBER 22, 153,600 OFFERS OF EMPLOYMENT HAD BEEN
CREATED FOR YOUNG PERSONS. THE PATRONAT EXPECTS
THIS FIGURE TO REACH 180,000 BY THE END OF THE MONTH
AND 300,000 BY THE END OF THE YEAR. THE GOF IS
ENCOURAGED THAT OF THIS NUMBER 40 PERCENT HAVE BEEN
FOR ACTUAL HIRINGS VERSUS APPRENTICESHIPS AND OTHER
FORMS OF TEMPORARY EMPLOYMENT. THIS MAY POSSIBLY
BE INDICATIVE OF AN OVERALL INCREASE IN EMPLOYMENT
SINCE THE MINISTRY OF LABOR REPORTS A SUBSTANTIAL
INCREASE AT THE OFFICIAL EMPLOYMENT AGENCY IN THE
NUMBER OF JOB OFFERS FOR ALL AGES.

4. CHIRAC CALLS FOR TAX REFORM AND STRONGER ECONOMIC STIMULUS

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JACQUES CHIRAC, LEADER OF THE RPR, HAS CALLED FOR
SEVERAL TAX REFORM MEASURES AS WELL AS A STRONGER
SECTORAL STIMULUS OF THE ECONOMY. CHIRAC SAID
THAT HE WOULD RECOMMEND IN THE 1978 BUDGET DISCUSSIONS
AN INCREASE IN THE LIMIT OF INCOME TAX EXEMPTIONS TO
THE LEVEL OF THE MINIMUM WAGE. HE WOULD ALSO PROPOSE
AUTOMATIC INDEXATION OF AT LEAST THE LOWER INCOME TAX
BRACKETS. HE SAID THAT ANY FUTURE TAX ON CAPITAL
SHOULD FIRST BE PRECEDED BY ELIMINATION OF ALL THE
CURRENT FORMS OF TAXATION OF CAPITAL. THE CEILING ON
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EXEMPTIONS OF CAPITAL TAXATION SHOULD BE SET ON THE ORDER OF FF 2 MILLION. THE RATE OF TAXATION ON CAPITAL SHOULD BE VERY MODERATE (ONE PERCENT AT THE MAXIMUM), AND TAXES ON CAPITAL SHOULD BE DEDUCTIBLE FROM INCOME TAXES.

ALTHOUGH CHIRAC MADE IT CLEAR THAT HE WAS NOT CRITICAL OF BARRE'S ECONOMIC POLICY, HE FELT THAT IT WAS NECESSARY TO PRACTICE AN EVEN MORE VIGOROUS SECTORAL RESTIMULATION OF THE ECONOMY. THE PRIORITY SHOULD BE GIVEN TO A NEW EMPLOYMENT POLICY.

5. LOW RATE OF INFLATION IN AUGUST

RETAIL PRICES INCREASED BY 0.5 PERCENT IN AUGUST, DOWN FROM 0.9 PERCENT IN JULY. ALTHOUGH IT IS NORMAL FOR THE INCREASE IN PRICES TO BE LOWER IN AUGUST THAN IN JULY AND SEPTEMBER (DUE TO THE CLOSING OF MANY FIRMS), THE AUGUST INCREASE THIS YEAR IS THE LOWEST SINCE 1971, AND THUS IT MAY INDICATE THAT THE RATE OF INFLATION IS FINALLY BEGINNING TO DECELERATE. THE INCREASE IN PRICES FOR THE FIRST EIGHT MONTHS WAS 6.5 PERCENT AND FOR THE 12 MONTH PERIOD ENDING IN AUGUST, 9.9 PERCENT.

AGRICULTURAL PRODUCTS CONTINUED TO BE THE MAJOR TROUBLE AREA WITH A 1.3 PERCENT PRICE INCREASE IN AUGUST. HOWEVER, CONSIDERABLE PROGRESS WAS MADE IN MANUFACTURED PRODUCTS AND SERVICES, WITH INCREASES OF 0.3 PERCENT AND 0.4 PERCENT RESPECTIVELY, PRACTICALLY THE LOWEST INCREASE FOR BOTH CATEGORIES DURING THIS YEAR.

6. BUSINESS BANKRUPTCIES HAVE INCREASED DURING PAST YEAR

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AFTER A PERIOD OF DECLINE IN THE NUMBER OF BUSINESS BANKRUPTCIES FROM MID-1975 TO MID-1976, THE NUMBER HAS TENDED TO INCREASE GRADUALLY DURING THE PAST YEAR IN ALL SECTORS. FOR BUILDING AND PUBLIC WORKS, TRANSPORTATION AND "OTHER SERVICES", THE PRESENT LEVEL IS STILL BELOW THAT REACHED IN 1975. IN CONTRAST, FOR INDUSTRY AND FOR HOTELS, CAFES AND RESTAURANTS THE PRESENT LEVEL HAS SURPASSED THE MAXIMUM POINT REGISTERED IN 1975. THE SAME HOLDS TRUE FOR COMMERCE, WITH THE EXCEPTION OF AGRICULTURE PRODUCTS BUSINESSES WHERE THE INCREASE IN BANKRUPTCIES REMAINS MODERATE.

7. MEASURES TO AID FIRMS IN FINANCIAL DIFFICULTY

PRIME MINISTER BARRE HAS TAKEN SEVERAL STEPS TO
AID FIRMS IN FINANCIAL DIFFICULTY. ACCESS TO LOANS OF
THE FUND FOR ECONOMIC AND SOCIAL DEVELOPMENT WILL BE
DECENTRALIZED TO THE DEPARTMENTAL LEVEL FOR SMALL- AND

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MEDIUM-SIZED FIRMS. IN ADDITION, THE SUBSIDIES ON
THESE LOANS WILL BE INCREASED. THE 1977 SUPPLEMENTARY
BUDGET WILL ALSO INCLUDE AN ADDITIONAL CREDIT OF FF 100
MILLION FOR INDUSTRIAL RESTRUCTURING.

8. SPLIT IN LEFT RESULTS IN INCREASE OF STOCK INDEX

THE RUPTURE IN DISCUSSIONS BY THE LEFT HAS RESULTED IN
A CONSIDERABLE STRENGTHENING IN THE STOCK MARKET INDEX.
ON SEPTEMBER 27 THE INDEX WAS 4 PERCENT HIGHER THAN ON
SEPTEMBER 15, WHEN THE FIRST BREAK OCCURRED, AND 25
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PERCENT HIGHER THAN ON MAY 10, THE LOW FOR THE YEAR.

9. LONG-TERM EXTERNAL BORROWING

THE FOLLOWING LONG-TERM EXTERNAL BORROWING HAS BEEN
NOTED IN THE PRESS DURING THE REPORTING PERIOD:

(1) SOCIETE GENERALE, \$10 MILLION, 7 YEARS, FLOATING
RATE 3/8 PERCENT ABOVE SIX MONTH LIBOR MINIMUM OF
7 PERCENT FOR FIRST SIX MONTHS ONLY).

10. OTHER REPORTS SUBMITTED DURING THE PERIOD:

TELEGRAMS:

PARIS 27817 -- AUGUST TRADE RESULTS

AIRGRAMS:

PARIS A-336 -- FRENCH FOREIGN EXCHANGE HOLDINGS

PARIS A-34L -- FRENCH FOREIGN EXCHANGE HOLDINGS

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